FRANCIS MARION UNIVERSITY

FLORENCE, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2003

State of South Carolina

Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

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September 16, 2003

The Honorable Mark Sanford, Governor
and
Members of the Board of Trustees
Francis Marion University
Florence, South Carolina

This report on the audit of the financial statements of Francis Marion University for the fiscal year ended June 30, 2003, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

FRANCIS MARION UNIVERSITY

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ROGERS & LABAN, PA
CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the accompanying financial statements of Francis Marion University, (the University) as of and for the year ended June 30, 2003 as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the University's financial statements are intended to present the financial position and results of operations and cash flows of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of the University. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2003, and changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America, and do not include other agencies, divisions, or component units of the State of South Carolina.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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The Management's Discussion and Analysis on pages 3 through 8 are not a required part of the financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of University taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 19, 2003, on our consideration of University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the result of our audit.

Rogers & Laban, PA

August 19, 2003

FRANCIS MARION UNIVERSITY

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

The following discussion and analysis provides an overview of the financial position and activities of Francis Marion University for the year ended June 30, 2003 with selected comparative information for the year ended June 30, 2002. This discussion is presented along with financial statements and related footnote disclosures. The discussion and analysis is designed to focus on current activities, resulting changes, and current known facts and should be read in conjunction with the financial statements and footnotes. The report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement. The purpose of the Statement of Nets Assets is to present to the readers of the financial statements a fiscal snapshot of Francis Marion University. The Statement of Net Assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and nets assets (assets minus liabilities). Current assets are those, which are reasonably expected to be realized in cash or sold or consumed within one year. Current liabilities are obligations whose liquidation is expected to require the use of current assets.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors, and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the University.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the University's equity in property, plant, and equipment owned by the institution. The next category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the University.

Condensed Summary of Net Assets	2003	2002	Increase/ (Decrease)	Percent Change
Assets:				
Current assets	$ 8,377,498	$ 8,276,988	$ 100,510	1.21%
Capital assets, net of accumulated depreciation	27,549,381	28,665,832	(1,116,451)	(3.89%)
Other noncurrent assets	3,415,071	2,416,187	998,884	41.34%
Total assets	39,341,950	39,359,007	(17,057)	(0.04%)
Liabilities:				
Current liabilities	2,391,106	3,058,595	(667,489)	(21.82%)
Noncurrent liabilities	5,415,530	5,874,257	(458,727)	(7.81%)
Total liabilities	7,806,636	8,932,852	(1,126,216)	(12.61%)
Net assets:				
Invested in capital assets, net of debt	23,842,623	23,865,124	(22,501)	(0.09%)
Restricted - nonexpendable	200,000	200,000	-	0.00%
Restricted - expendable	1,437,950	808,766	629,184	77.80%
Unrestricted	6,054,741	5,552,265	502,476	9.05%
Total net assets	$ 31,535,314	$ 30,426,155	$ 1,109,159	3.65%

The Statement of Net Assets shows a decline in assets and a substantial decrease in liabilities resulting in an overall increase in net assets. Significant changes on the Statement of Net Assets are as follows:

- Total assets of the University decreased by approximately $17,000.
- The decline in capital assets indicates that disposals and depreciation exceed the investment in assets.
- The increase in noncurrent assets results from a receivable for an advance to the food service vendor and an increase in restricted cash.
- The decline in current liabilities is due to a decrease in the amount of bond principal owed in 2004.
- The decrease in noncurrent liabilities is attributable to payments on bonds.

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the University, both operating and nonoperating, and the expenses paid by the University, operating and nonoperating, and any other revenue, expenses, gains, and losses received or spent by the University. Operating revenues are those that are earned in exchange for goods or services provided while carrying out the mission of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the Legislature to the University without the Legislature directly receiving commensurate goods and services for those revenues.

The statement of Revenues, Expenses, and Changes in Net Assets is prepared on the accrual basis of accounting. Accrual accounting attempts to record the financial effects of transactions on an entity in the period in which those transactions occur rather than in the period in which cash is received or paid. Revenues are recognized when services or goods are provided. Expenses are recognized when resources are utilized in order to produce goods or services.

Condensed Statement of Revenue, Expenses, and Changes in Net Assets				
	2003	2002	Increase/ (Decrease)	Percent Change
Operating revenues	20,788,094	16,869,273	3,918,821	23.23%
Operating expenses	36,810,289	34,350,975	2,459,314	7.16%
Operating loss	(16,022,195)	(17,481,702)	1,459,507	(8.35%)
Nonoperating revenues	16,733,600	17,332,761	(599,161)	(3.46%)
Nonoperating expenses	(240,577)	(292,546)	51,969	(17.76%)
Total nonoperating revenues/expenses	16,493,023	17,040,215	(547,192)	(3.21%)
Gain (loss) before other revenues, expenses, gains, or losses	470,828	(441,487)	912,315	(206.65%)
Other revenues, expenses, gains, or losses	638,331	493,744	144,587	29.28%
Increase in net assets	1,109,159	52,257	1,056,902	2022.51%
Net assets - beginning of year	30,426,155	30,373,898	52,257	0.17%
Net assets - end of year	$ 31,535,314	$ 30,426,155	$ 1,109,159	3.65%

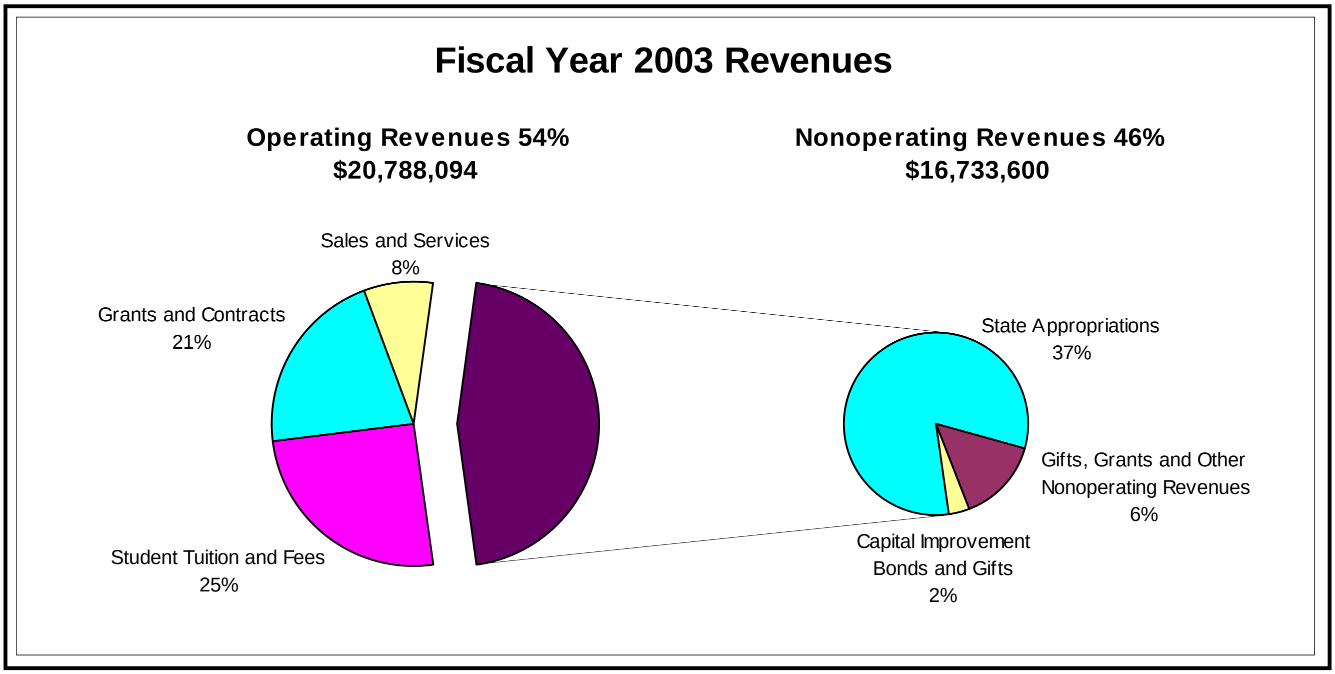
The Statement of Revenues, Expenses and Changes in Net Assets reflects an increase in net assets for the year. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

- The Board of Trustees increased tuition to partially offset reductions in state appropriations. This increase was somewhat mitigated by increased federal and state grants for scholarships. The net tuition increase of about $786,000 and the approximately $2,844,000 increase in federal and state grants are largely responsible for the overall $3,928,000 increase in operating revenue.

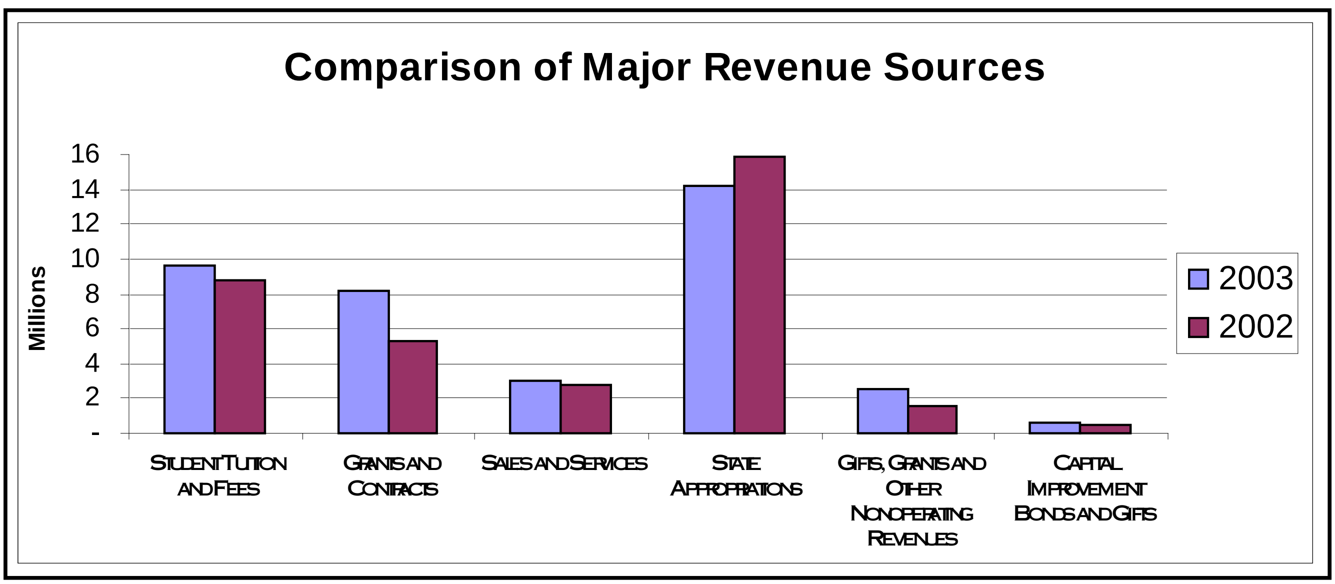
- The decline in nonoperating revenue is due to the $1,500,000 decrease in state appropriations. This reduction was somewhat offset by nonoperating gifts and grants.

- Capital gifts increased more than $400,000.

The following graph presents the sources of revenue used to fund the University for the year.

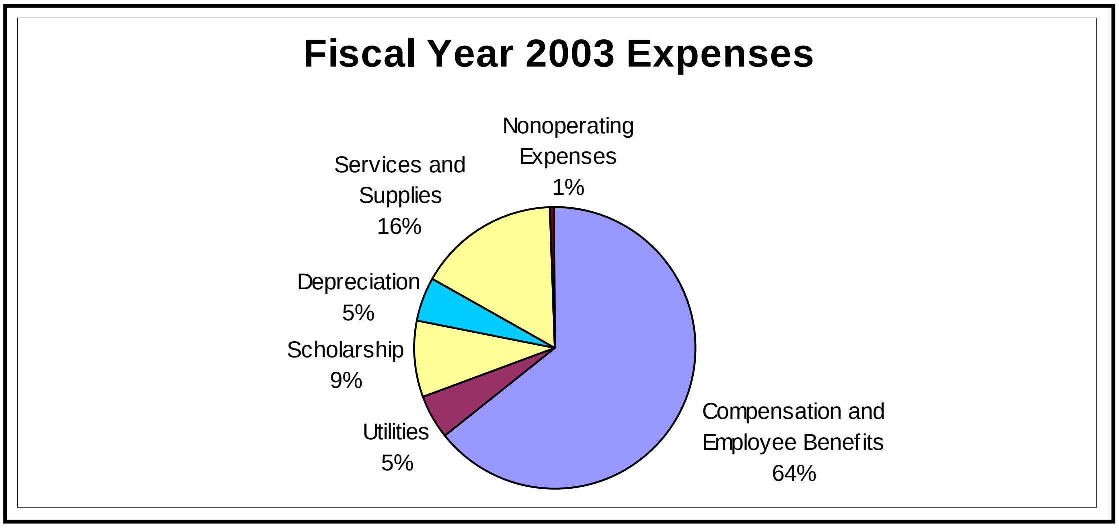


The graph below, comparing 2003 revenue sources to 2002, illustrates the changes in major revenue sources.

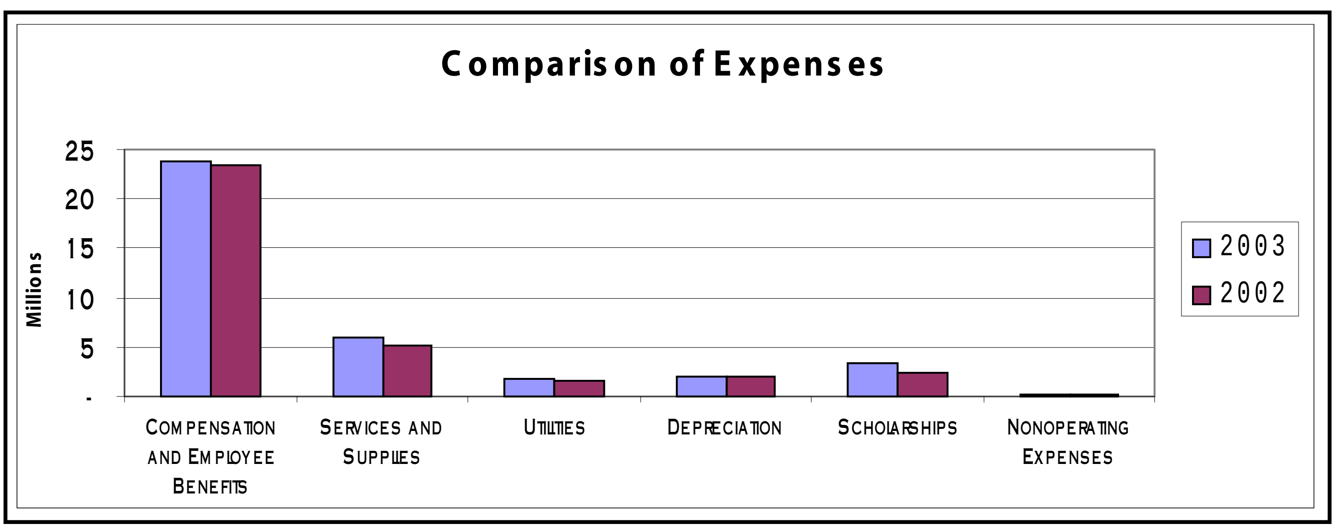


- Total operating expenses have increased approximately $2,459,000. The growth in total compensation and employee benefits was kept to less than $400,000 by the policy of leaving vacant positions empty. The $900,000 increase in the cost of supplies and services reflect rising cost of contractual services as well as the need to purchase more services as employees were decreased. Utility cost increases of $260,000 results from the decision of the University to absorb the cost of student apartment utilities. Additionally, temperatures in fiscal year 2002 were unseasonably mild causing utility cost to be less than typical. The growth in grants for scholarships raised the amount given to students for off campus cost of living expenses by approximately $909,000.

The following graph displays expense categories.



The graph below compares 2003 expenses to the subsequent year and illustrates the changes in major expense types.



Statement of Cash Flows

The final statement presented by Francis Marion University is the Statement of Cash Flows. The Statement of Cash Flows gives detailed information about the cash activity of the University during the year. The statement is divided into five parts. The first section presents operating cash flows and shows the net cash used by the operating activities of the University. The second section reflects cash flows from noncapital financing activities and displays the cash received and spent for noncapital financing purposes. The third section exhibits cash flows from capital and related financing activities and shows cash used for the acquisition and construction of capital and related items. The fourth part gives the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss displayed on the Statement of Revenues, Expenses, and Changes in Net Assets.

Capital Asset and Debt Activity

Significant capital asset additions include a media center renovation, an energy facility expansion, and road repaving.

There were no new capital bonds authorized or revenue bonds issued in fiscal year 2003. There have been no significant changes in credit ratings or debt limitations that might affect future financing for the University.

Economic Outlook

The University, like other state agencies in South Carolina, has been called upon to react to a series of reductions in state-appropriated support over the last several years. While responding to changes in the availability of state funds, the University has endeavored to manage tuition in order to remain competitive and to control resources necessary to maintain a high level of academic excellence. Given the economy of the state, issues that continue to challenge the University are the need to address deferred maintenance, technology demands, renovations, and new construction.

The University's overall financial position is sound, and the University is well-positioned to maintain its financial stability and to adapt to changes in state-funding as well as to other internal and external issues.

Francis Marion University
Statement of Net Assets
June 30, 2003

ASSETS	
Current Assets	
Cash and cash equivalents	$ 7,079,931
Accounts receivable (net of allowance for doubtful accounts $60,192)	617,545
Accrued interest receivable	94,381
Prepaid expenses	496,883
Inventories	88,758
Total current assets	8,377,498
Noncurrent Assets	
Restricted cash and cash equivalents	1,283,444
Notes receivable	200,000
Long-term accounts receivable	209,229
Perkins loans receivable	1,722,398
Capital assets, net of accumulated depreciation	27,549,381
Total noncurrent assets	30,964,452
Total assets	39,341,950
LIABILITIES	
Current Liabilities	
Accounts payable	47,613
Accrued payroll and related liabilities	211,131
Accrued compensated absences - current portion	871,703
Accrued interest payable	35,326
Student deposits - current portion	73,265
Deferred revenues and unearned student revenues	623,640
Leases payable	18,774
Note payable - current portion	63,322
Bonds payable - current portion	370,000
Deposits held for others	76,332
Total current liabilities	2,391,106
Noncurrent Liabilities	
Accrued compensated absences	448,015
Student deposits	70,000
Note payable	174,661
Bonds payable	3,080,000
Perkins liability	1,613,691
Arbitrage rebate payable	29,163
Total noncurrent liabilities	5,415,530
Total liabilities	7,806,636
NET ASSETS	
Invested in capital assets, net of related debt	23,842,624
Restricted for	
Nonexpendable	
Scholarships and fellowships	200,000
Expendable	
Scholarships and fellowships	194,232
Research	2,834
Instructional department uses	593,399
Loans	433,765
Capital projects	169,694
Other	44,026
Unrestricted	6,054,740
Total net assets	$ 31,535,314

See accompanying Notes to Financial Statements.

Francis Marion University
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2003

OPERATING REVENUES	
Student tuition and fees (net of scholarship allowances of $5,190,342)	$ 9,224,574
Federal grants and contracts	3,963,413
State grants and contracts	4,131,228
Local grants and contracts	49,496
Non-governmental grants and contracts	13,063
Sales and services of education departments	163,496
Sales and services of auxiliary enterprises pledged on revenu	2,776,258
Sales and services of auxiliary enterprises	79,723
Other operating revenues	386,842
Total operating revenues	20,788,093
OPERATING EXPENSES	
Salaries and wages	18,797,138
Benefits	4,937,414
Supplies and other services	5,999,473
Utilities	1,868,419
Scholarships	3,286,408
Depreciation	1,921,437
Total operating expenses	36,810,289
Operating loss	(16,022,196)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	14,174,497
State grants	964,772
Gifts	1,073,758
Investment income	468,472
Interest and other fees on capital asset related debt	(189,327)
Other nonoperating revenues	852
Net nonoperating revenues	16,493,024
Loss before other revenues, expenses, gains, or losses	470,828
Capital improvement bonds	59,875
Capital gifts	578,456
Increase in net assets	1,109,159
Net assets - beginning of year	30,426,155
Net assets - end of year	$ 31,535,314

See accompanying Notes to Financial Statements.

Francis Marion University
Statement of Cash Flows
For the Year Ended June 30, 2003

CASH FLOWS FROM OPERATING ACTIVITIES:	
Student tuition and fees	$ 9,098,359
Grants and contracts	8,054,586
Auxiliary enterprises	4,224,179
Payments to suppliers	(9,257,786)
Payments to employees	(18,989,010)
Payments for benefits	(5,026,521)
Payments for scholarships	(3,295,751)
Loans to students	(266,950)
Collection of loans	254,258
Sales and services of education activities	214,257
Receipts for reimbursements	431,059
Inflows from Stafford loans	10,840,224
Outflows for Stafford loans	(10,829,610)
Other receipts	673,318
Other disbursements	(311,424)
Net cash (used) by operating activities	(14,186,812)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State appropriations	14,174,497
State grants	964,772
Gifts	945,511
Other outflows	(52,009)
Net cash provided by noncapital financing activities	16,032,771
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital appropriations	69,502
Capital grants and gifts received	9,229
Purchases of capital assets	(249,558)
Proceeds from sale of capital assets	9,581
Principal paid on revenue bonds	(1,000,000)
Principal paid on capital leases	(32,891)
Principal paid on note payable	(61,060)
Interest and fees	(200,304)
Net cash (used) by capital activities and related financing activities	(1,455,501)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	470,975
Net cash from investing activities:	470,975
Net change in cash	861,433
Cash and cash equivalents - beginning of year	7,501,942
Cash and cash equivalents - end of year	$ 8,363,375

See accompanying Notes to Financial Statements.

Francis Marion University
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2003

Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:		
Operating (loss)	$	(16,022,196)
Adjustments to reconcile net (loss) to net cash (used) by operating activities:		
Nonoperating revenue		47,563
Noncash gifts		128,991
Depreciation expense		1,921,437
Bad debts		68,730
Loan cancellations		31,173
Changes in assets and liabiliites:		
Receivables, net		(282,844)
Inventories		912
Loans to students		(12,693)
Deferred charges and prepayments		(83,819)
Accounts payable		(99,938)
Accrued payroll and related liabilities		3,194
Deferred revenues and unearned student deposits		61,247
Perkins liability		14,653
Deposits held for others		(36,019)
Accrued compensated absences		72,797
Net cash (used) by operating activities	$	(14,186,812)

Noncash capital and related financing activities:

The University received gifts of capital assets of $578,456.

The University disposed of equipment with a cost of $164,062 and accumulated depreciation of $156,120.

See accompanying Notes to Financial Statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Francis Marion University is a State-supported coeducational institution of higher education. The University's primary purpose is to provide academic instruction to students and conduct research and other activities that advance fundamental knowledge.

Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. The University is part of the primary government of the State of South Carolina. The accompanying financial statements present only that portion of the funds of the State of South Carolina that is attributable to the transactions of the University.

Basis of Accounting: For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Student tuition and auxiliary enterprise fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly to students are presented as scholarship and fellowship expenses. All significant intra-agency transactions have been eliminated.

The University has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

Cash and Cash Equivalents: For purposes of the financial statements, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State of South Carolina State Treasurer's Office are considered cash equivalents.

Investments: The University accounts for its investments at fair value. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net assets.

Accounts Receivable: Accounts receivable consists of tuition and fee charges to students, and auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories: Inventories are for internal use and are valued at cost using the first in-first out (FIFO) method.

Capital Assets: Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The University follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The University capitalizes movable personal property with a unit value in excess of $5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of $100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of $5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles.

Deferred Revenues and Deposits: Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Deposits represent dormitory room deposits, security deposits for possible room damage and key loss, student fee refunds, and other miscellaneous deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Compensated Absences: Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net assets, and as a component of compensation and benefit expense in the statement of revenues, expenses, and changes in net assets.

Perkins Loans Receivable and Related Liability: The loans receivable on the balance sheet are due to the University primarily under the Perkins loan program. The federal government funds this program with the University providing a required match. The amount reported as Perkins liability is the amount of cumulative federal contributions and a prorata share of net earnings on the loans under this program that would have to be repaid to the federal government if the University ceases to participate in the program. The University recognizes as revenue and expenses only the portion attributable to its matching contribution.

Net Assets: The University's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets - expendable: Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, appropriations, and sales and services of educational departments and auxiliary enterprises. These resources may be used at the discretion of the governing board to meet current expenses. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

The University policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources then to unrestricted resources.

Income Taxes: The University, as a political subdivision of the State of South Carolina, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended.

Classification of Revenues: The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues generally result from exchange transactions to provide goods or services related to the University's principal ongoing operations. These revenues include (1) student tuition and fees received in exchange for providing educational services, housing, and other related services to students; (2) receipts for scholarships where the provider has identified the student recipients; (3) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the University; and (4) grants and contracts that are essentially the same as contracts for services that finance programs the University would not otherwise undertake.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include gifts and contributions, appropriations, investment income, and any grants and contracts that are not classified as operating revenue or restricted by the grantor to be used exclusively for capital purposes.

Sales and Services of Educational and Other Activities: Revenues from sales and services of educational and other activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The University receives such revenues primarily from community groups using campus facilities for summer camps and other activities.

Auxiliary Enterprises and Internal Service Activities: Auxiliary enterprise revenues primarily represent revenues generated by the bookstore, dining services, and housing. Transactions between the University and its auxiliary enterprise activities and its internal service department have been eliminated.

Scholarship Discounts and Allowances: Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

NOTE 2 – CASH AND CASH EQUIVALENTS

All deposits of the University are under the control of the State Treasurer who, by law, has sole authority for investing State funds. The following schedule reconciles deposits within the footnotes to the statement of net assets amounts:

Statement of Net Assets		Footnotes	
Cash and cash equivalents (current)	$ 7,079,931	Cash on hand	$ 26,225
Restricted cash and cash equivalents (noncurrent):		Deposits held by State Treasurer	8,337,150
Exchange grants	833,972		
Perkins loan funds	282,163		
Debt Service funds	167,309		
Total	$ 8,363,375	Total	$ 8,363,375

Deposits Held by State Treasurer

State law requires full collatralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2003, are summarized as follows:

Student tuition and fees	$ 234,627
Less allowance for doubtful accounts	(60,192)
Federal grants and contracts	159,695
State and local grants and contracts	76,256
Sales and services of education departments	18,942
Gifts	15,905
Auxiliary services	126,610
Contribution receivable	9,229
Other	36,473
Net accounts receivable	$ 617,545
Noncurrent:	
Advance receivable	$ 200,000
Contribution receivable	9,229
Net accounts receivable	$ 209,229

The amounts shown above are reported at gross with all discounts and allowances disclosed.

Allowances for losses for student accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current account portfolio. At June 30, 2003, the allowance for uncollectible student accounts is valued at $60,192.

The University advanced $200,000 to Sodexho, the food service contractor. The advance is for the term of the contract, which ends on June 30, 2008.

NOTE 4 – LOANS AND NOTES RECEIVABLE

Student loans made through the federal Perkins loan program comprise substantially all of the loans receivable as of June 30, 2003. The Perkins loan program provides various repayment options; students have the right to repay the loans over periods up to 10 years depending on the amount of the loan and loan cancellation privileges the student may exercise. As the University determines that loans are uncollectible, the loans are written off and assigned to the US Department of Education.

Notes receivable are discussed in Note 13.

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2003 is summarized as follows:

	Beginning Balance July 1, 2002	Increases	Decreases	Ending Balance June 30, 2003
Capital assets not being depreciated:				
Land and improvements	$ 632,392	$ -	$ -	$ 632,392
Construction in progress	821,690	59,875	(525,000)	356,565
Art work and historical treasures	200,248	-	-	200,248
Total capital assets not being depreciated	1,654,330	59,875	(525,000)	1,189,205
Other capital assets:				
Land improvements	2,203,859	128,456	-	2,332,315
Buildings and improvements	54,033,270	975,000	-	55,008,270
Machinery, equipment, and other	2,483,878	147,747	(152,282)	2,479,343
Vehicles	403,417	26,850	(11,780)	418,487
Total other capital assets at historical cost	59,124,424	1,278,053	(164,062)	60,238,415
Less accumulated depreciation for:				
Land improvements	(1,794,664)	(34,256)	-	(1,828,920)
Buildings and improvements	(28,064,509)	(1,602,455)	-	(29,666,964)
Machinery, equipment, and other	(1,879,372)	(263,743)	144,340	(1,998,775)
Vehicles	(374,377)	(20,983)	11,780	(383,580)
Total accumulated depreciation	(32,112,922)	(1,921,437)	156,120	(33,878,239)
Other capital assets, net of accumulated depreciation	27,011,502	(643,384)	(7,942)	26,360,176
Capital assets, net of accumulated depreciation	$28,665,832	$ (583,509)	$ (532,942)	$27,549,381

NOTE 6 – PENSION PLAN

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates for the South Carolina Retirement System and the Police Officers Retirement System are actuarially determined. Annual benefits, payable monthly for life, are based on length of service and on average final compensation.

South Carolina Retirement System
The majority of employees of the University are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2002, the employer contribution rate became 10.7 percent that included a 3.15 percent surcharge to fund retiree health and dental insurance coverage. The University's contributions to the SCRS for the three most recent fiscal years ending June 30, 2003, 2002, and 2001, were approximately $1,026,000, $991,000, and $1,028,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of approximately $20,400 in the current fiscal year at the rate of .15 percent of compensation. The University paid the employer's 7.55 percent share, included in the amount above, of approximately $4,300 of pension costs for employees on educational leave with employees paying $2,500.

Police Officers Retirement System
The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan administered by the Retirement Division. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2002, the employer contribution rate became 13.45 percent that, as for the SCRS, included the 3.15 percent surcharge. The University's contributions to the PORS for the years ending June 30, 2003, 2002, and 2001, were approximately $35,800, $33,500, and $32,600, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of approximately $700 and accidental death insurance contributions of approximately $700 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

Optional Retirement Program
Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts that are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is limited to faculty and administrative staff of the State's higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 3.15 percent from the employer in fiscal year 2003.

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were approximately $337,000 (excluding the surcharge) from the University as employer and approximately $265,000 from its employees as plan members. 5.7 percent of the total contributions was remitted to the Retirement Division of the State Budget and Control Board. Also, the University paid employer group life insurance contributions of approximately $6,600 in the current fiscal year at the rate of .15 percent of compensation. The balance was remitted directly to the respective annuity policy providers. Included in the total contribution, the University paid the employer's 7.55 percent share of approximately $1,800 of pension costs for employees on educational leave with employees paying $1,500. The obligation for payment of benefits resides with the insurance companies.

Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Teacher and Employee Retention Incentive

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

NOTE 7 – POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the University are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the University for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately 24,000 State retirees met these eligibility requirements as of June 30, 2002.

The University recorded compensation and benefit expenses for these insurance benefits for active employees in the amount of approximately $1,480,000 for the year ended June 30, 2003. As discussed in Note 6, the University paid approximately $578,000 applicable to the 3.15

percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to University retirees is not available. By State law, the University has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

NOTE 8 – CONTINGENCIES, LITIGATION, AND PROJECT COMMITMENTS

The University is party to various lawsuits arising out of the normal conduct of its operations. In the opinion of University management, there are no material claims or lawsuits against the University that are not covered by insurance or whose settlement would materially affect the University's financial position.

The University participates in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, will not be material.

The University had outstanding commitments under construction contracts of approximately $216,000 at June 30, 2003 of which $164,000 will be capitalized. The University anticipates funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state capital improvement bond proceeds. The State has issued capital improvement bonds to fund improvements and expansion of state facilities. The University is not obligated to repay these funds to the State. Authorized funds can be requested as needed once State authorities have given approval to begin specific projects and project expenditures have been incurred. The University has $393,435 of authorized state capital improvement bonds.

NOTE 9 – LEASE OBLIGATIONS

Future commitments for capital leases as of June 30, 2003 were as follows:

	Capital Leases for the Year Ending June 30, 2004
Total minimum lease payment	24,410
Less: Interest	(427)
Executory and other costs	(5,209)
Principal outstanding	$ 18,774

Capital Leases

Capital leases for various pieces of equipment are payable in monthly installments from current resources. Certain capital leases provide for renewal and/or purchase options. The cost of assets held under capital leases totaled $143,278 as of June 30, 2003. Accumulated amortization of the leases on this equipment totaled $123,701 at June 30, 2003 resulting in a book value of $19,577. Current years amortization expense on capital leases was $47,523 that is included in depreciation expense. The capital leases are with external parties.

Contingent rentals
During fiscal year 2003, the University paid approximately $102,300 for copier leases paid on a cost per copy basis to external parties.

NOTE 10 – BONDS AND NOTES PAYABLE

Bonds Payable
Bonds payable consisted of the following at June 30, 2003:

	Interest Rates	Maturity Date	Balance
Revenue refunding bonds, series 1999	3.75 - 4.40%	2004 - 2011	$ 3,450,000

Bonds issued by the University include certain restrictive covenants. The Series 1999 Bonds are payable from and secured by a pledge of the net revenues derived by the University from the operation of various facilities after first paying the costs and expenses of operating and maintaining those facilities. Facilities include dormitories, apartment buildings, dining halls and cafeterias, and laundry. The bond rate covenant requires the University to maintain and collect rates and charges for the use of the facilities at amounts necessary to maintain certain specified earnings levels at all times after providing for the payment of expenses for administration and the operation and maintenance of the facilities as may be necessary to preserve the same in good repair and condition. The University is required to generate net revenues available for debt service of not less than 100% of the debt service payments due in each applicable bond year.

The University purchased a bond insurance policy in favor of the bond trustee for the Series 1999 bonds to secure the payment of principal and interest for a period equal to the final maturity of the bonds in case of default.

Tuition fees, as defined by code section 59-107-30, of approximately $172,000 were collected during fiscal year 2002. The University has no debt from institution bonds.

The scheduled maturities of the revenue bonds are as follows:

Year Ended June 30,	Total Principal	Interest	Total Payments
2004	$ 370,000	$ 141,310	$ 511,310
2005	385,000	127,435	512,435
2006	395,000	112,613	507,613
2007	430,000	97,010	527,010
2008	440,000	79,810	519,810
2009 – 2011	1,430,000	126,630	1,556,630
Totals	$ 3,450,000	$ 684,808	$ 4,134,808

Notes Payable
Notes payable consisted of the following at June 30, 2003:

	Interest Rate	Maturity Date	Balance
Master purchase line agreement to acquire a PBX telephone switch dated January, 2002	3.65%	February, 2007	$ 237,983

The scheduled maturities of the note payable is as follows:

Year Ended June 30,	Total Principal	Interest	Total Payments
2004	63,322	7,625	70,947
2005	65,670	5,277	70,947
2006	68,104	2,843	70,947
2007	40,887	499	41,386
Totals	$ 237,983	$ 16,244	$ 254,227

NOTE 11 – LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2003 was as follows:

	June 30, 2002	Additions	Reductions	June 30, 2003	Due within One year
Bonds and note payable and capital lease obligations:					
Revenue bonds	$ 4,450,000	$ -	$ (1,000,000)	$ 3,450,000	$ 370,000
Notes payable	299,043	-	(61,060)	237,983	63,322
Capital lease obligations	51,665		(32,891)	18,774	18,774
Total bonds, notes and capital leases	4,800,708	-	(1,093,951)	3,706,757	452,096
Other liabilities:				-	
Accrued compensated absences	1,246,923	930,919	(858,124)	1,319,718	871,703
Perkins Federal Capital Contributions	1,592,187	21,504	-	1,613,691	-
Arbitrage rebate	29,163	-	-	29,163	-
Student deposits	201,140	67,764	(125,639)	143,265	73,265
Total other liabilities	3,069,413	1,020,187	(983,763)	3,105,837	944,968
Total long-term liabilities	$ 7,870,121	$ 1,020,187	$ (2,077,714)	$ 6,812,594	$ 1,397,064

Additional information regarding bonds payable is included in Note 10. Additional information regarding capital lease obligations is included in Note 9.

NOTE 12 – ENDOWMENTS

Donor Restricted Permanent Endowments
Endowments are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. The University's endowments require that the income be used for a specific purpose. These restrictions are discussed in Note 13. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation (realized and unrealized) of the endowment fund investments. Any net appreciation is required to be spent for the purposes for which the endowment was established.

NOTE 13 – RELATED PARTIES

The Francis Marion University Foundation (the Foundation), a separately chartered legal entity whose activities are related to those of the University, exists primarily to provide financial assistance and other support to the University and its educational program. The financial statements of this organization are to be audited by independent auditors and retained by the Foundation. The activities of this entity are not included in the University's financial statements. However, the University's statements include transactions between the University and the Foundation.

The University excluded this entity from the reporting entity because it is not financially accountable for it. GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units,* was issued in May 2002. This statement provides additional guidance concerning the inclusion of related party financial information as a part of the reporting entity. Since the Foundation meets the new criteria for inclusion, its financial information will be presented in the University's financial statement for the fiscal year ending June 30, 2004. In accordance with instructions from the Comptroller General's office, the University will not early implement GASB 39 for fiscal year 2003.

Various financial activities occurred between the University and the Foundation. A summary of transactions and/or balances at June 30, 2003 and for the year then ended follows.

a)	Scholarships awarded by the University and funded by the Foundation. (Includes $9,395 owed to the University at June 30, 2003 and included in accounts receivable.) The University recorded these amounts as gift revenue and either tuition discounts or scholarship expense.	$ 353,654
b)	Awards for lectures, grants, special programs, and certain other expenses paid by the University and funded by the Foundation (includes $2,411 owed to the University at June 30, 2003 and included in accounts receivable.) The University recorded these awards as gift revenue and the applicable operating expense.	$ 172,146
c)	Personal service payments to professors holding endowed chairs made by the University and funded by the Foundation. The University recorded these amounts as gift revenue and salary expense.	$ 60,919
d)	Reimbursements for University employee time and other costs paid by the University on behalf of the Foundation and reimbursed by the Foundation. The University recorded these reimbursements as a reduction of the applicable operating expense.	$ 36,426
e)	Group life insurance premium payments made by the University and funded by the Foundation. (Includes $1,960 owed to the University at June 30, 2003 and included in accounts receivable.) The University recorded these amounts as gift revenue and benefit expense.	$ 9,202

f) Rent for a motor vehicle used by the University's President in the amount of $8,219. was paid by the Foundation. Other payments by the Foundation for the benefit of the University and its staff included $11,207 for club memberships, $2,956 for other goods and services, $4,281 for furniture and appliances, $7,259 for special events and $5,176 for travel. The University recorded these amounts as gift revenue and the applicable operating expense.

g) The University continued a loan agreement with the Foundation in which the University initially lent the Foundation $200,000, (all of its endowment assets), to invest with a guarantee of a minimum annual return of 7%. The note receivable is due on demand. In addition, the net balance of excess earnings is also to be loaned to the Foundation for investment and is reported as accounts receivable as a quasi-endowment. Interest earned and due from the Foundation to the University as of June 30, 2003 is $14,000, which is included in investment income and accrued interest receivable. This is based on the 7% guaranteed return. Lending of the University's endowment resources to the Foundation is in accordance with Section 59-101-410 of the South Carolina Code of Laws which authorizes the governing boards of state-supported universities to lend their endowment and auxiliary enterprise monies on deposit with the State Treasurer's Office to separately chartered not-for-profit legal entities whose purpose is primarily providing financial assistance and other support to the institution and its educational program.

h) The foundation's interest-free loan to the Francis Marion University Center for Research and Professional Service for $838 was satisfied by a gift of $79 and cash payment of $759 during fiscal year 2003.

i) The University has a $18,458 receivable due from the Foundation for a land improvement project. Payment will be made from receipt of pledges to the Foundation. Also, the university is owed $7,082 from the prior year loan agreement.

j) The University leased land to the Foundation for $1 per year for the purpose of building a faculty-alumni house. The University will pay the Foundation $30,000 per year for five years for usage of the facility. At year end, the University will receive 70% of the profit from the Foundation or will pay the Foundation 70% of any loss. The facility is to be completed in September 2003. The lease is for twenty-five years with an option to renew for an additional ten years. Upon expiration of the lease the faculty-alumni house will become the property of the University.

NOTE 14 – RISK MANAGEMENT

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settlement claims have not exceeded this coverage in any of the past three years.

The State of South Carolina believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several state funds accumulate assets and the State itself assumes substantially all the risk for the following claims of covered employees:

- Unemployment compensation benefits
- Worker's compensation benefits for job-related illnesses or injuries
- Health and dental insurance benefits
- Long-term disability and group-life insurance benefits

Employees elect health insurance coverage through either a health maintenance organization or through the State's self-insured plan.

The University and other entities pay premiums to the State's Insurance Reserve Fund (IRF), which issues policies, accumulates assets to cover the risk of loss, and pays claims incurred for covered losses relating to the following activities:

- Theft, damage to, or destruction of assets
- Real property, its contents, and other equipment
- Motor vehicles and watercraft
- Torts
- Business interruptions
- Natural disasters
- Medical malpractice claims against covered employees

The IRF is a self-insurer and purchases reinsurance to obtain certain services and to limit losses in certain areas. The IRF's rates are determined actuarially.

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for loses arising from theft or misappropriation.

NOTE 15 – EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2003 are summarized as follows:

	Salaries and Wages	Benefits	Supplies and other Services	Utilities	Scholarships	Depreciation	Total
Instruction	$ 10,324,101	$ 2,547,030	$ 713,293	$ 31,917	$ -	$ -	$ 13,616,341
Research	74,139	14,680	86,482	-	-	-	175,301
Public service	174,771	30,478	244,882	320	-	-	450,451
Academic support	1,631,102	435,874	1,630,839	20,498	-	-	3,718,313
Student services	1,710,192	444,001	1,064,918	18,938	-	-	3,238,049
Institutional support	2,508,664	701,606	653,479	21,182	-	-	3,884,931
Operation and maintenance of plant	2,086,174	717,926	1,094,128	1,295,468	-	-	5,193,696
Depreciation	-	-	-	-	-	1,921,437	1,921,437
Scholarships	-	-	-	-	3,286,408	-	3,286,408
Auxiliary Enterprises	287,995	45,819	511,452	480,096	-	-	1,325,362
Total operating expenses	$ 18,797,138	$ 4,937,414	$ 5,999,473	$ 1,868,419	$ 3,286,408	$ 1,921,437	$ 36,810,289

NOTE 16 – STATE APPROPRIATIONS

The following are the appropriations as enacted by the General Assembly and reported in the financial statements for the fiscal year ended June 30, 2003:

NON-CAPITAL APPROPRIATIONS	
Current year's appropriations:	
Original appropriations per Annual Appropriations Act	$15,430,948
Mid-year appropriation reductions	(1,324,239)
Supplemental appropriations (Proviso 63C.9)	52,819
From Commission on Higher Education:	
Academic Incentive Endowment Match	14,969
Total non-capital appropriations recorded as current year revenue	$14,174,497

NOTE 17 – STATEMENT OF ACTIVIITIES

The following information is provided for incorporation in the State of Carolina Comprehensive Annual Financial Report:

	Year Ended June 30, 2003	2002
Charges for services	$12,682,995	$11,603,256
Operating grants and contributions	10,664,202	6,771,022
Capital grants and contributions	578,456	170,870
Less: expenses	(36,999,616)	(34,605,776)
Net program revenues	(13,073,963)	(16,060,628)
Transfers:		
State appropriations	14,174,497	15,827,756
Capital improvement bond proceeds	59,875	322,874
Transfers out to state agencies	(51,250)	(37,745)
Total general revenues and transfers	14,183,122	16,112,885
Change in net assets	1,109,159	52,257
Net assets - beginning	30,426,155	30,373,898
Net assets - ending	$31,535,314	$30,426,155

NOTE 18 – SUBSEQUENT EVENTS

The Francis Marion University Real Estate Foundation was incorporated as a nonprofit corporation on July 30, 2003 to acquire, construct, finance, and lease housing facilities for the students and faculty of the University and to acquire other real property for the benefit of the University. The Real Estate Foundation's Board of Directors is composed of five members, two of which are appointed by the University. The Real Estate Foundation will be included in the reporting entity of the University for the year ending June 30, 2004.

NOTE 19 – RECLASSIFICATIONS

The University reclassified certain amounts on the Statement of Cash Flows. In the prior year, approximately $9,424,000 inflows and $9,442,000 outflows from Stafford loans and other agency funds were classified as noncapital financing activities. In the current year, they are classified as cash flows from and used for operating activities.

FRANCIS MARION UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2003

Federal Grantor/Program Title	Federal CFDA Number	Grant/Contract Number	Total Expenditures
Direct Programs:			
U.S. Department of Justice			
Public Safety Partnership and Community Policing Grants	16.710	2001UMWX0269	$ 15,678
U.S. Department of Education			
Supplemental Educational Opportunity Grant	84.007	PO7A53784	212,024
Federal Work Study	84.033	PO33A53784	168,464
Federal Perkins Loan Program	84.038	PO38A53784	1,998,379
Pell Grant Program	84.063	PO63P56065	3,132,852
Preparing Tomorrow's Teachers to Use Technology	84.342	P342A000184	148,509
U.S. Department of Health and Human Services			
Special Minority Initiatives	93.960		147,021
Total Direct Programs			5,822,927
Indirect Programs:			
U.S. Department of Education			
Passed Through National Writing Project Corp.			
National Writing Project	84.928A	00-SC10	31,966
Passed Through State of South Carolina Department of Education			
Teacher Quality Enhancement Grants	84.336	03-FI304	17,674
Passed Through State of South Carolina Department of Education			
Eisenhower Professional Development State Grants	84.281	0603240-H18	14,355
National Science Foundation			
Passed through the Consortium for Mathematics and its Applications			
Mathematical and Physical Sciences	47.049	DUE-9555414	8,919
Passed through the Association of American Colleges and Universities			
Education and Human Resources	47.076	0402224-H18	2,950
U.S. Department of Health and Human Services			
Passed through the University of Florida			
Fogarty International Research Collaboration Award	93.934	UF-EIES-0308002-FMU	17,422
Total Indirect Programs			93,286
Total Federal Assistance			$ 5,916,213

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

ROGERS & LABAN, PA
CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the financial statements of Francis Marion University (the University) as of and for the year ended June 30, 2003, and have issued our report thereon dated August 19, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which are detailed on page 32.

This report is intended solely for the information and use of the Board of Trustees, management and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rogers & Laban, PA

August 19, 2003

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ROGERS & LABAN, PA
CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

Compliance

We have audited the compliance of Francis Marion University (the University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2003. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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This report is intended solely for the information and use of the Board of Trustees, management and the federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rogers & Laban PA

August 19, 2003

FRANCIS MARION UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2003

SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS:

1. An unqualified opinion dated August 19, 2003 on the financial statements of the University for the year ended June 30, 2003 was issued.

2. No reportable conditions related to internal control over financial reporting were noted.

3. No instances of noncompliance which were material to the financial statements were noted.

FEDERAL AWARDS:

4. An unqualified opinion on compliance for the major program dated August 19, 2003 was issued.

5. There are no findings related to internal control over major programs required to be reported under Section .510(a) of OMB Circular A-133.

6. The major programs of the University are as follows:

CFDA #	Program Title
84.007	Supplemental Educational Opportunity Grant
84.033	Federal Work Study
84.038	Federal Perkins Loan Program
84.063	Pell Grant Program

7. The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

8. The University was not determined to be a low-risk auditee.

FINANCIAL STATEMENT FINDINGS

No material reportable conditions were noted during our audit.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No findings and questioned costs for federal awards were noted that are required to be reported under Section .510(a) of OMB Circular A-133.

FRANCIS MARION UNIVERSITY

OTHER MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2003

A. LACK OF FORMAL DISASTER RECOVERY PLAN

The University does not have a formal disaster recovery plan in place in case of computer hardware failures to ensure that all electronic data is adequately backed up and could be restored in a timely manner so that the affairs of the University can continue. This plan should cover all areas of the University including financial, payroll, and academic records.

We recommend that the University develop a formal disaster recovery plan. Periodic tests of the plan should be performed to ensure that it is working as designed.

B. DOCUMENTATION FOR NON-CASH CONTRIBUTIONS NOT RECEIVED

The University's policies require it to obtain documentation to support the value of non-cash contributions received. We noted two instances of contributions of capital assets during the year for which the University did not have any documentation to support the values recorded in the general ledger.

We recommend that the University timely obtain the documentation required by its policies before the transaction is recorded.

MANAGEMENT’S RESPONSE

APPENDIX A

MANAGEMENT LETTER COMMENTS

A. LACK OF FORMAL DISASTER RECOVERY PLAN

Response: The University will develop a formal disaster recovery plan. Periodically the plan will be tested to ensure that it is working as designed.

B. DOCUMENTATION FOR NON-CASH CONTRIBUTION NOT RECEIVED

Response: The University will obtain documentation of the estimated cost of contributions of construction prior to beginning construction and will obtain revised documentation if estimates change during construction.